GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5977
ANSWERED ON:31.08.2001
FOREIGN EXCHANGE RESERVE
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Will the Minister of FINANCE be pleased to state:

(a): the amount of the minimum foreign exchange reserve and the manner in which it is maintained;

(b) whether this reserve had fallen below the minimum limit in the country; and

(c) the impact of the minimum foreign exchange reserve on the economy of the country when it falls below the minimum limit?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a) & (b): Minimum level of foreign exchange reserves of a country is normally judged by the cover that they provide to imports. As per international standards, the level of foreign exchange reserves at any point of time is considered adequate, if they provide cover for at least 3 months of imports. The level of India`s foreign exchange reserves (including gold and SDRs)at US $44.59 billion as on August 17, 2001 provide cover for about 8.2 months of estimated imports in 2001-02, and it is considered comfortable, keeping in view India`s need for essential imports, short-term liabilities, including debt service obligations, and other unforeseen contingencies.

(c): When foreign exchange reserves of a country fall below the minimum level, unless the country is in a position to meet its short term requirements for foreign exchange from normal sources of foreign exchange inflows, it becomes difficult to pay for essential imports and to fulfil short-term obligations. The situation may trigger speculation and panic among market participants leading to payments crisis, and pressure on exchange rate.